

Service Standard Adjustments: First- Class Mail and Periodicals

Pre-Filing Conference
April 6, 2021



Agenda

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- Overview of Service Standard Proposal
- Why Service Standards Are Being Adjusted
- How Service Standards Are Being Adjusted
 - Contiguous United States (CONUS)
 - Offshore States and U.S. Territories
- Next Steps

Overview of Proposal

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- On March 23, the Postal Service announced the *Delivering For America* strategic plan to achieve **financial sustainability** and **service excellence**.
- Through the proposed service standard change and other elements of the *Delivering For America* plan, the Postal Service will foster service excellence: meeting or exceeding **95% on-time delivery** for FCM and Periodicals (as well as all other products)
- Proposal adjusts service standards for First Class Mail (FCM) Letters and Flats and end-to-end Periodicals to **improve service reliability and predictability** for customers, and enhance the **efficiency** of the Postal Service network
- The current standards are not suitable for setting realistic customer expectations for timely and reliable mail delivery in today's environment. The Postal Service has not met its composite scores for First-Class Mail in 8 years.

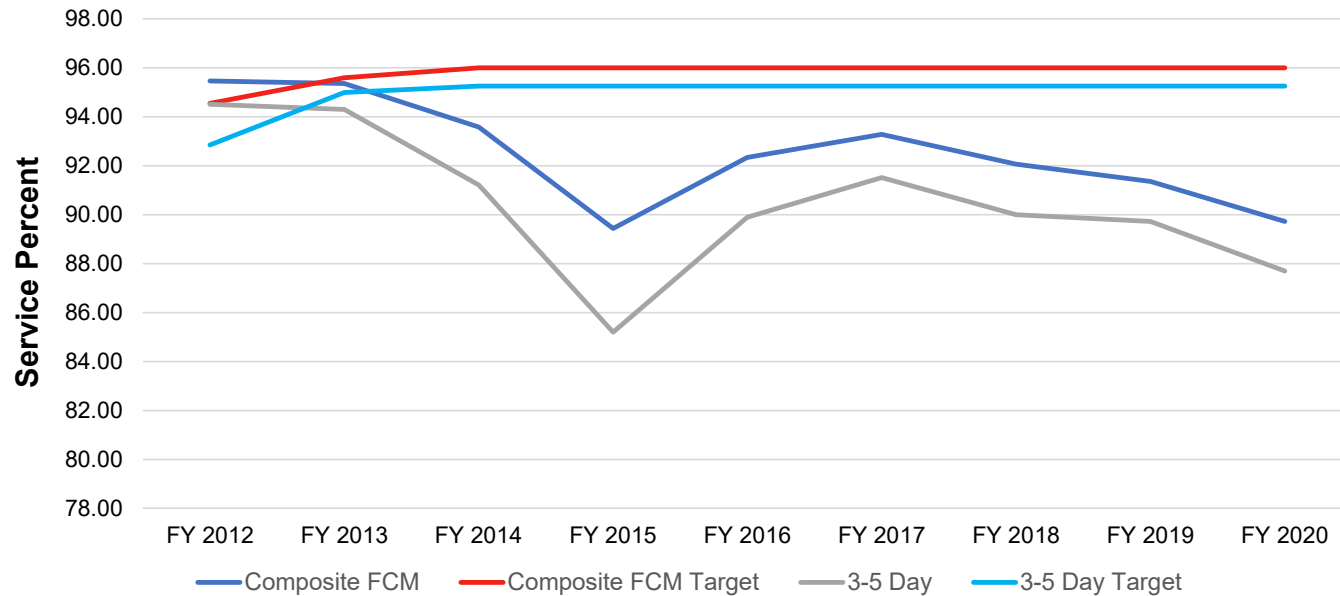
Overview of Proposal

- Proposal adds 1 or 2 days of expected time-in-transit for certain FCM and Periodicals volume
- Most FCM and Periodicals would remain at the current standard
 - 61% of current FCM volume stays at its current standard
 - 93% of current Periodicals volume stays at its current standard
- Overall, 70% of FCM volume would receive a standard of 1-3 Days
- FCM traveling within a local area (3 hour drive time between origin and destination processing facilities) would still be delivered within 2 Days
 - Overnight standard would not change, and 81% of current 2-Day volume stays at 2 Days
- Current FCM 3-Day volume will be subject to 3, 4, or 5 Day standard depending on distance between origin/destination
 - Of current 3-Day volume, 47% stays at 3 Days, 36% moves to 4 Days, and 17% moves to 5 days

Why Service Standards Are Being Adjusted

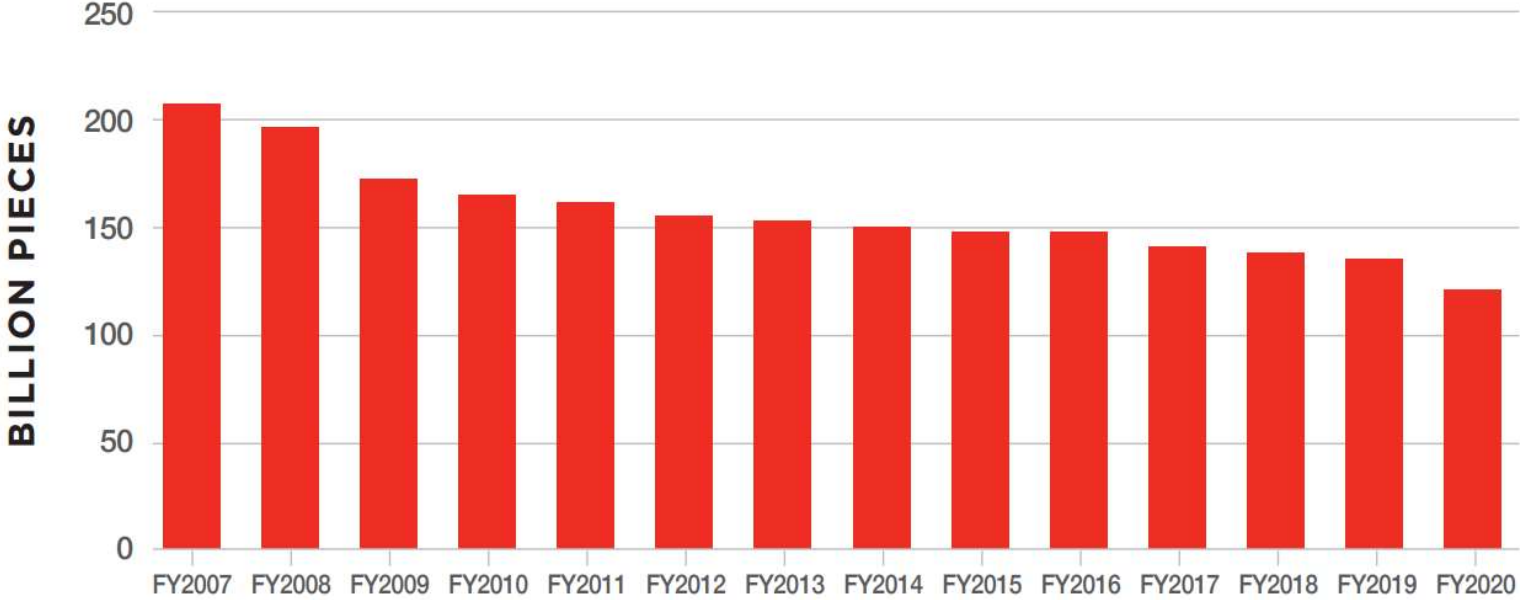
The Current Service Standards are Unattainable

Over the past **8 years**, the Postal Service has not met our service performance targets, particularly for FCM traveling longer distances.



Mail Volumes Are Declining

USPS Total Mail Volume (2007 – 2020)



Meeting the Current Service Standards Is Difficult and Expensive

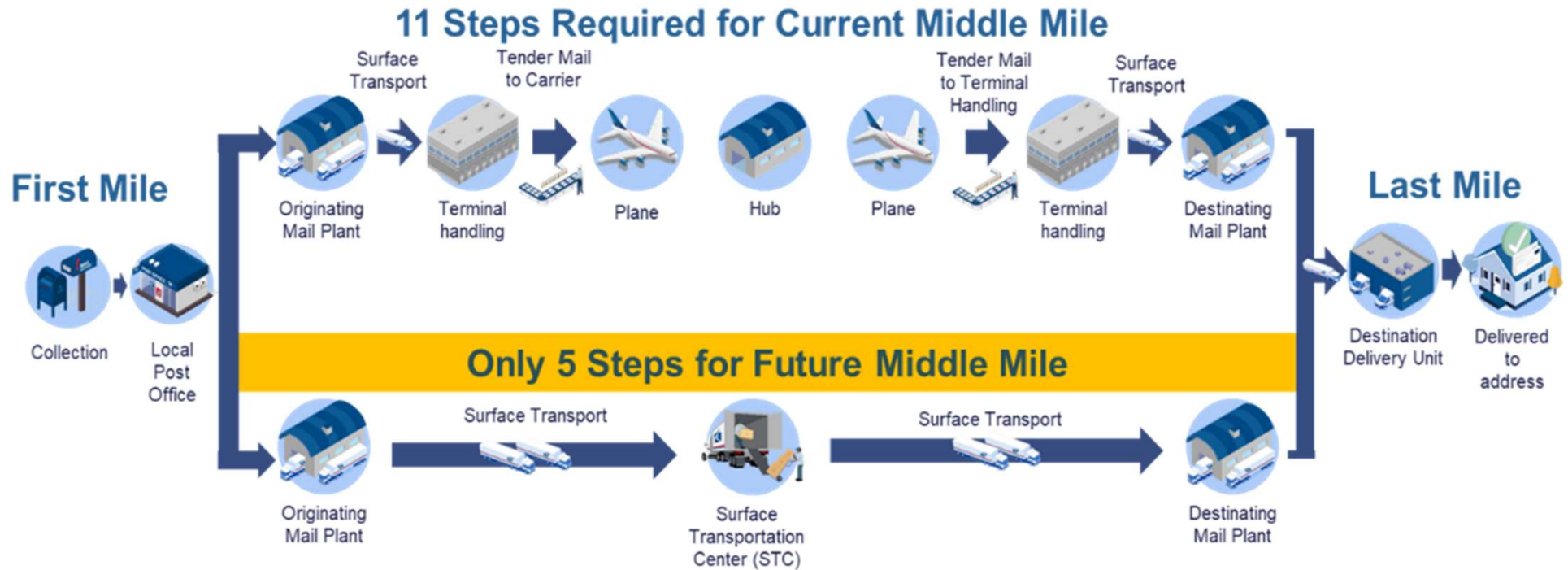
- The current service standards do not reflect the dramatic decline in mail volumes, make it difficult for us to provide reliable and consistent service, and lead to high costs and inefficiencies in our transportation network
 - For instance, current service standards require 3-Day delivery for **any** destination within CONUS whose drive time is more than 6 hours (279 miles) from the origin, whether it is 300 miles or 3,000 miles. Trying to meet a 3-day standard for such a wide geographic area requires a complex and high-cost transportation network
 - Attempting to meet these standards creates multiple handlings; with every additional handling, we degrade our ability to achieve on-time delivery
- The end result is an unsustainable situation: failure to provide reliable service, and costs that are higher than they should be
 - The costs of maintaining these standards will only grow as mail volume continues to decline

Benefits of Proposed Service Standards: Increased Reliability at Lower Cost

- The specific service standard adjustments will address factors that are a consequence of the current standards, and that contribute to unreliable service and high costs
 - Over-reliance on air transportation, which is less reliable and more costly than surface transportation
 - Inefficiencies in our surface transportation network: A large number of long-haul trucks are run with low volume. Current utilization of our trucks is only 42 percent. In many cases, the current capacity on these trucks can absorb volume that would otherwise move by air.
- The proposal improves reliability by moving a higher percentage of volume to be transported by surface rather than air, which is prone to delays and inefficiencies
 - Some volume will continue to be transported by air when necessary, based on specific origin-destination pairs
 - For offshore areas in which air transportation will continue, the adjustments will improve reliability and reduce costs by expanding windows to process and transport mail, and allowing use of lower-cost air carriers

A Simplified Transportation Network Drives Greater Reliability

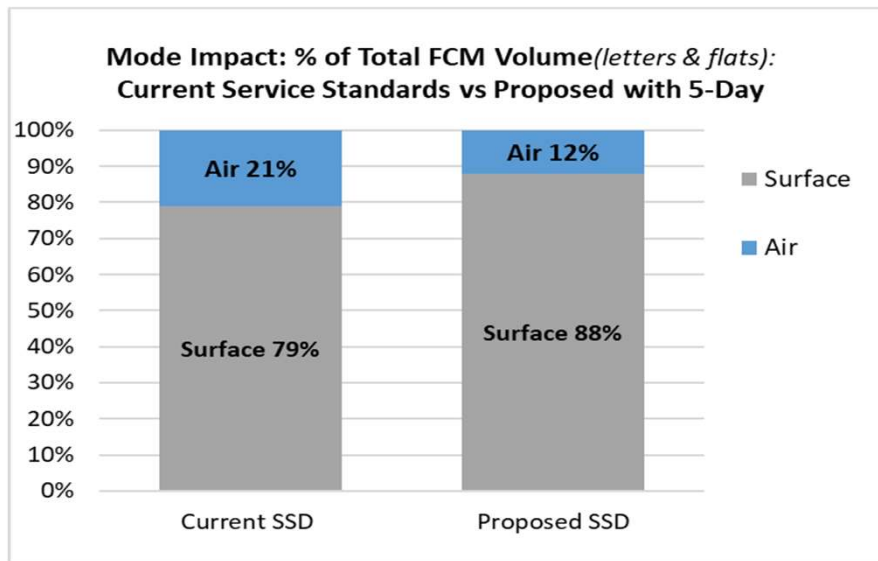
By moving FCM from air to surface, we will be able to reduce the total number of touches for each mail piece to improve service and reduce costs.



*Image is explanatory. It does not capture all mail flows as the USPS middle mile network is extremely complex. The image is representative of the process change that is proposed.

Improved Service Reliability from Moving Volume from Air to Surface

- As shown in the charts below, a greater percentage of mail will move by surface, and surface volume historically has higher service performance than air volume



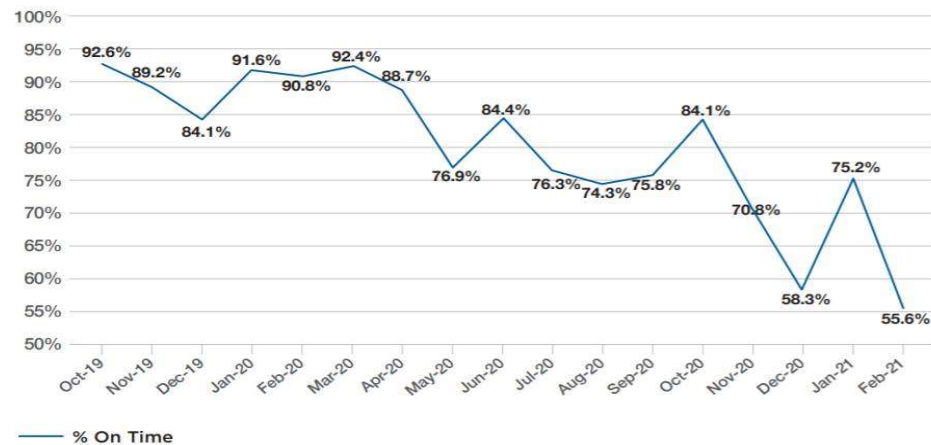
FCM Service Performance by Transportation Mode

Time Period	Surface	Air
FY19 Q1	89.06%	85.82%
FY19 Q2	91.13%	88.00%
FY19 Q3	94.00%	91.50%
FY19 Q4	94.27%	92.40%
FY19	92.02%	89.40%
FY20 Q1	90.95%	88.66%
FY20 Q2	93.05%	90.64%
FY20 Q3	92.20%	87.90%
FY20 Q4	86.85%	83.01%
FY20	90.85%	87.72%
FY21 Q1TD	85.29%	83.30%

Improved Service Reliability from Moving Volume from Air to Surface

- Air transportation has major uncertainties and risks (weather, flight delays, etc.) which do not affect surface transportation to the same degree
 - On time delivery by air carriers to USPS is less than 95% pre-pandemic and significantly worse during the pandemic
- Late delivery by air carriers causes additional costs for USPS as it implements recovery procedures to attempt to provide on-time service to customers after late receipt from air carriers

FIGURE 6: Recent Air Carrier Performance



Increasing Reliance on the Surface Transportation Network Drives Additional Improvements

- Implementing the proposal will also enable us to create an optimized, low-cost, and efficient surface transportation network, through measures such as:
 - Hub and spoke routings: increased use of transfers via aggregation sites and surface transportation centers
 - Load sequencing
 - Multi-stop lanes
- This will enable the Postal Service to use more efficient surface routings and increase capacity utilization, which will mitigate the need for additional trucks and drivers

Summary of Benefits of Proposed Service Standards

The proposed standards:

- Enhance the reliability and predictability of the service we provide to customers
 - These changes will enable us to meet or exceed **95% on-time delivery**
- Improve operational efficiency and precision, which keeps our costs at reasonable levels and helps to ensure affordable postage rates
- Enable further optimization of our network and product offerings

How Service Standards Are Being Adjusted

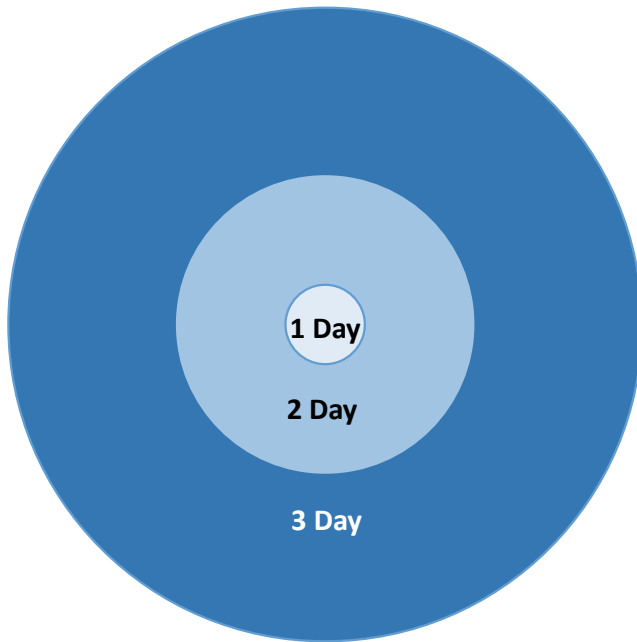
Service Change

Current

**1 Day: Day Zero
Intra-SCF
Presort**

**2 Day: 6 hours,
279 miles**

**3 Day: Over 6
hours, 280+
miles**



Adjusted

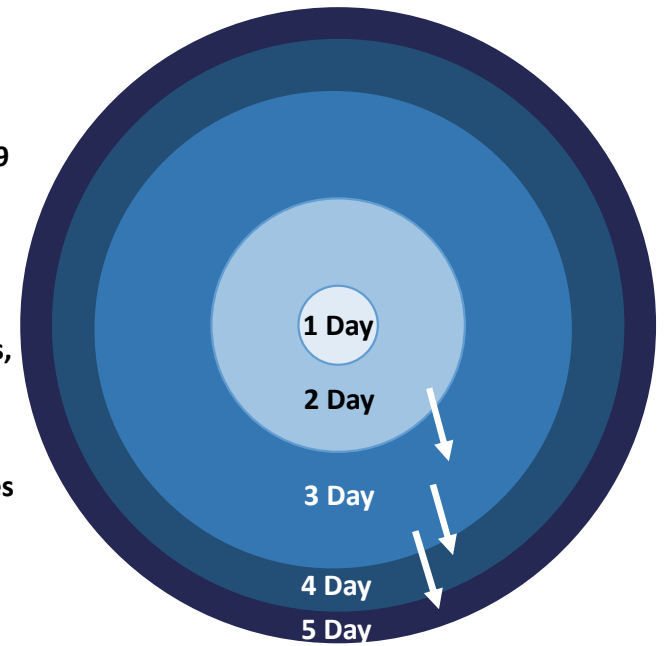
**1 Day: Day Zero
Intra-SCF Presort**

**2 Day: 3 hours, 139
miles**

**3 Day: 3-20 hours,
140-930 miles**

**4 Day: 20-41 hours,
931-1,907 miles**

**5 Day: Over 41
hours, 1,908+ miles**

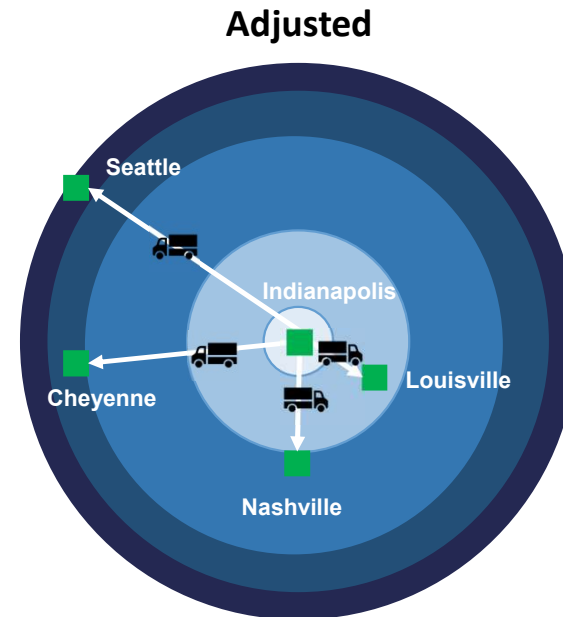
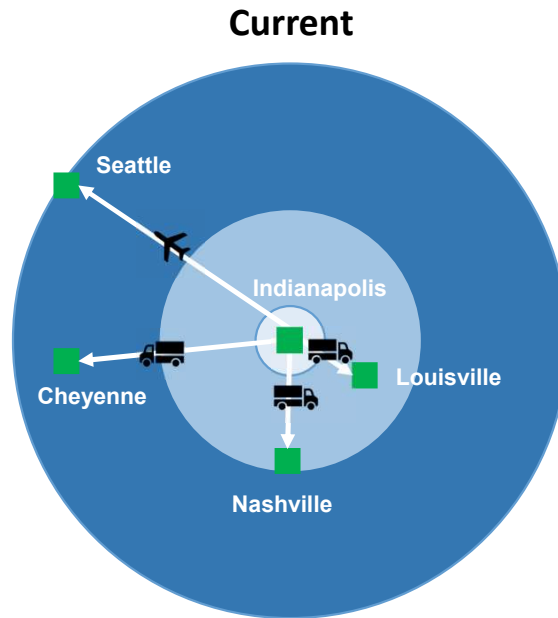


*Note, this slide depicts only a generalized summary of service standards.

Service Change Example – Indianapolis, IN

Destinations:

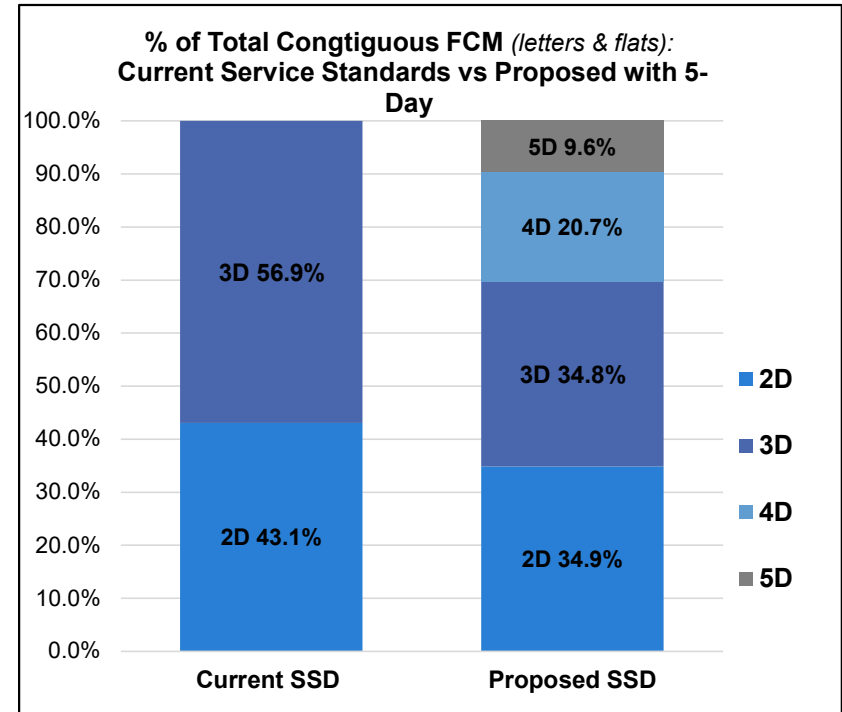
- Louisville, KY (2.5 hrs.)
- Nashville, TN (5 hrs.)
- Cheyenne, WY (21 hrs.)
- Seattle, WA (45 hrs.)



- 1 Day
- 2 Day
- 3 Day
- 4 Day
- 5 Day

Proposed Service Standards: FCM Impact (CONUS)

Current Volume				ZIP Code Pairs		
Current Service Standard	Proposed Service Standard	Proposed service standard % of Total Volume	% of Current SSD Volume	FCM Origin-Dest Zip Pairs	Proposed service standard % of Total Pairs	% of Current SSD Pair
2D	2D	35%	81%	22,277	3%	35%
2D	3D	8%	19%	41,305	5%	65%
2D	4D	0%	0%	5	0%	0%
3D	2D	0%	0%	0	0%	0%
3D	3D	27%	47%	296,426	36%	39%
3D	4D	21%	36%	315,046	39%	42%
3D	5D	10%	17%	141,253	17%	19%
Total Downgrade		38%		816,312	61%	



Note: Avg Daily Volume is based on an estimate of the 2nd highest Wed in March 2020.
Air vs Surface % based on Contiguous US. Proposed based on TMOD results and high-level lane cost effective analysis

Proposed Service Standards (Offshore and Periodicals)

FCM Letters and Flats (Offshore): service standard change would add 1-day of time-in-transit to the current 3 and 4-day offshore service standards:

- 3-day >> 4-day
- 4-day >> 5-day
- 5-day >> no change

End-to-End Periodicals: where FCM standards are increased by 1 or 2 days, the standards for end-to-end Periodicals that are merged with FCM will increase by the same number of days

- Less than 7% of volume Periodicals volume will be affected
 - No change to DSCF and DADC Periodical service standards

Service Improvement For Offshore Areas

Up to 7-point improvement in service with +1 day added to service standard

Offshore State/Territories	ZIP 3	Overall			
		Score	+ 1 Score	+ 2 Score	+ 3 Score
Puerto Rico (USVI)	006	89.3%	95.6%	97.5%	98.3%
	007	88.9%	95.3%	97.4%	98.2%
	008	92.9%	96.4%	97.7%	98.3%
	009	88.8%	95.1%	97.2%	98.1%
Hawaii (Guam, American Samoa)	967	90.0%	96.1%	98.1%	98.9%
	968	78.9%	92.2%	96.4%	98.2%
	969	76.6%	87.5%	92.9%	95.4%
Alaska	995	90.3%	96.0%	98.0%	98.9%
	996	92.5%	96.5%	98.1%	98.8%
	997	92.4%	96.5%	98.0%	98.7%
	998	86.7%	94.3%	97.3%	98.5%
	999	84.4%	93.5%	97.0%	98.2%
Grand Total		88.0%	95.1%	97.5%	98.4%

Next Steps

Next Steps

The Postal Service will consider public feedback provided in this session

If the Postal Service determines to move forward with the proposal to change service standards, we will follow statutory and regulatory processes

(1) We will file a request for an advisory opinion from the Postal Regulatory Commission, pursuant to 39 U.S.C. § 3661. Interested parties may participate in that proceeding

(2) We will also file a notice of proposed rulemaking in the Federal Register regarding the specific changes to our service standard regulations (39 CFR Part 121), and interested parties may file comments as part of that process

A Few Housekeeping Rules

- When it's your turn to speak, I'll state your name and you will need to unmute yourself.
- Please state your name and affiliation.
- Each person will have two minutes to speak.
- We'll give you a warning when you have 15 seconds left to speak.
- At the end of your two minutes, you'll be muted again.
- Kindly keep your remarks and questions concise.

Further information about the service standard proposal and other elements of the *Delivering For America* plan can be found at

<https://about.usps.com/what/strategic-plans/delivering-for-america/>

THANK YOU FOR ATTENDING

